

**SUPERVISORY BOARD OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ  
SPÓŁKA AKCYJNA**

**REPORT OF THE PZU SA SUPERVISORY BOARD ON THE ACTIVITY  
OF THE PZU SA SUPERVISORY BOARD AS A CORPORATE BODY  
IN 2011**

Warsaw, 8 May 2012

## **I. Composition of the Supervisory Board**

As at 1 January 2011, the following persons comprised the PZU SA Supervisory Board:

1. Marzena Piszczek – Supervisory Board Chairwoman,
2. Zbigniew Ćwiąkalski – Supervisory Board Deputy Chairman,
3. Grażyna Piotrowska-Oliwa – Supervisory Board Secretary,
4. Krzysztof Dresler – Supervisory Board Member,
5. Dariusz Filar – Supervisory Board Member,
6. Piotr Maciej Kamiński – Supervisory Board Member,
7. Waldemar Maj – Supervisory Board Member.

In connection with the expiration of mandates of the Supervisory Board members, on 30 June 2011 the Ordinary Shareholder Meeting appointed the following persons to the PZU SA Supervisory Board:

1. Marzena Piszczek – Supervisory Board Member,
2. Zbigniew Ćwiąkalski – Supervisory Board Member,
3. Dariusz Daniluk – Supervisory Board Member,
4. Zbigniew Derdziuk – Supervisory Board Member,
5. Krzysztof Dresler – Supervisory Board Member,
6. Dariusz Filar – Supervisory Board Member,
7. Waldemar Maj – Supervisory Board Member.

On 30 June 2011, the first Supervisory Board meeting of the new term of office was held during which the Supervisory Board was officially formed – Marzena Piszczek was elected the Supervisory Board Chairwoman, Zbigniew Ćwiąkalski – Supervisory Board Deputy Chairman and Krzysztof Dresler became the Supervisory Board Secretary.

In the period 30 June – 31 December 2011, the composition of the PZU SA Supervisory Board did not change.

## **II. Supervisory Board's activity**

During the reporting period, the legal basis for the Supervisory Board's activity was the Commercial Companies Code, the Insurance Activity Act, the Company's Articles of Association, the Supervisory Board Bylaws and other generally binding regulations.

In order to fulfill the provisions of the Articles of Association and the Bylaws, the Supervisory Board held duly convened and prepared meetings while maintaining a high level of attendance at the meetings. During the financial year, the Supervisory Board held 12 sessions as part of seven meetings on the following dates:

- 19 January 2011
- 2 and 4 February 2011 (two sessions)
- 15, 16, 21 and 28 March 2011 (four sessions)
- 7 June 2011
- 30 June 2011
- 9 August and 20 September 2011 (two sessions)
- 13 December 2011

The Supervisory Board made the relevant decisions in the form of resolutions and opinions conveyed to the Company's Management Board and the Shareholder Meeting of PZU SA. During the reporting period, the Supervisory Board adopted forty nine resolutions, including four resolutions adopted by circulation (the list of resolutions constitutes attachment no. 1 to this report).

All the resolutions were adopted unanimously while maintaining a quorum as required by the regulations.

The agendas of the Supervisory Board meetings prepared by the PZU SA Supervisory Board Chairwoman included all the subjects which should be covered by the Supervisory Board according to the range of its duties, and they took into consideration additional issues which the Management Board of Supervisory Board members deemed to be important.

Most PZU SA Supervisory Board members attended all meetings. The absences of individual persons at Supervisory Board meetings were caused mostly by important business trips and were justified through justification resolutions adopted by the Supervisory Board (the summary of absences from Supervisory Board meetings constitutes attachment no. 2 to this report).

Pursuant to § 15 of the PZU SA Supervisory Board Bylaws, members of the PZU SA Management Board, PZU Group Directors, Managing Directors, Directors of Head Office Departments and other PZU SA employees who provided exhaustive explanations and submitted any and all documents concerning the Company's functioning were invited to meetings of the PZU SA Supervisory Board.

Regardless of the scheduled meetings, the Supervisory Board was informed on an ongoing basis about the key aspects of the Company's operation via e-mail (current and periodic reports resulting from PZU SA's functioning as a company listed on the Warsaw Stock Exchange were sent to the Supervisory Board Members).

In addition, the representatives of Egon Zehnder International Sp. z o.o., Spencer Stuart Poland Sp. z o.o., Deloitte Audyt Sp. z o.o. and White Cat Studio participated in meetings of the PZU SA Supervisory Board.

The cooperation between the Supervisory Board and the Management Board of PZU SA was correct and it aimed at increasing the company's value and caring for its success. The

information and materials delivered by the Management Board were for the most part prepared in a clear and comprehensible manner and were consistent with the requirements prescribed by the Supervisory Board.

### **III. Important issues with which the Supervisory Board dealt**

In the financial year ended 31 December 2011, the PZU SA Supervisory Board dealt with all the matters which fall within the scope of the Supervisory Board's duties pursuant to the Company's Articles of Association.

As part of its activities, the Supervisory Board actively supported the Management Board in the performance of the Company's strategic objectives, reviewed the Management Board's motions in issues requiring – according to the Company's Articles of Association – the Supervisory Board's consent, and it familiarized itself with other matters presented by the Management Board.

Important issues which the Supervisory Board dealt with in 2011 included the following:

1. Conducting, in cooperation with an executive search advisory company, the qualification procedure for the positions of CEO of PZU SA and six members of the PZU SA Management Board, and appointing the PZU SA Management Board.
2. Monitoring the performance of PZU SA's financial plan for 2011 on an ongoing basis.
3. Approval of the financial plan of PZU SA and the PZU Group for 2012.
4. Regular assessment of the financial and economic standing of the Company and the PZU Group, the market position and the key strategic initiatives and plans for 2011.
5. Evaluation of the PZU SA financial statements for the year ended 31 December 2010 and recommendation to the Ordinary Shareholder Meeting of PZU SA to approve it.
6. Evaluation of the Management Board's report on the activity of PZU SA in 2010 and recommendation to the Ordinary Shareholder Meeting of PZU SA to approve it.
7. Evaluation of the Management Board's motion on distribution of PZU SA's net profit for the year ended 31 December 2010 and recommendation to the Ordinary Shareholder Meeting of PZU SA to approve it.
8. Evaluation of the consolidated financial statements of the PZU SA Capital Group for the year ended 31 December 2010 and recommendation to the Ordinary Shareholder Meeting of PZU SA to approve it.
9. Evaluation of the Management Board's report on the activity of the PZU SA Capital Group in 2010 and recommendation to the Ordinary Shareholder Meeting of PZU SA to approve it.
10. Recommendation to the Ordinary Shareholder Meeting of PZU SA to discharge the PZU SA Management Board members on the performance of their duties in the Management Board in 2010.
11. Accepting the Supervisory Board's Report on the evaluation of the financial statements of PZU SA for the year ended 31 December 2010, the Management Board's report on the activity of PZU SA in 2010 and the Management Board's motion on distribution of profit.
12. Accepting the report of the PZU SA Supervisory Board on the activity of the PZU SA Supervisory Board as a corporate body in 2010.
13. Selecting an audit firm authorized to audit financial statements to audit the annual financial statements of PZU SA and the annual consolidated financial statements of the PZU Group for the financial year ended 31 December 2011.

14. Approving the Company's long-term development plan presented in the document entitled "PZU Group's Strategy for 2012-2014".
15. Determining the consolidated version of PZU SA's Articles of Association.
16. Accepting the motion of the PZU SA Management Board for PZU SA to sell shares in PrJSC IC PZU Ukraine and PrJSC IC PZU Ukraine Life Insurance.
17. Accepting the motions of the PZU SA Management Board concerning the purchase of shares in Towarzystwo Funduszy Inwestycyjnych PZU SA, PZU Centrum Operacji SA and PZU Asset Management SA.
18. Discussion on interest rate risk management.
19. Discussion on the capital and dividend policy of the PZU Group.
20. Monitoring investment risk on an ongoing basis.
21. Discussing the results of the activity of the PZU Group's foreign companies.
22. Discussion on the Target Operating Model and the Target Policy System of PZU SA.
23. Discussing the headcount restructuring process.
24. Discussing the Brand Revitalization and Development (BRD) project.
25. Monitoring on an ongoing basis the activity of the Audit Committee of the PZU SA Supervisory Board, the Nomination and Compensation Committee of the PZU SA Supervisory Board and the Strategic Committee of the PZU SA Supervisory Board.

In addition, pursuant to resolution no. URN/21/2011 of 13 May 2011 the PZU SA Supervisory Board selected Deloitte Audyt Sp. z o.o. as the audit firm to audit the financial statements, to carry out the audit of the annual financial statements of PZU SA and the annual consolidated financial statements of the PZU Group for the financial year ended 31 December 2011.

The Supervisory Board, for the purpose of correct performance of supervisory activities in the Company, appointed advisory and opinion-making committees. In 2011, the following three committees functioned within the PZU SA Supervisory Board:

- Audit Committee,
- Nomination and Compensation Committee,
- Strategic Committee.

#### Audit Committee

The Audit Committee was appointed pursuant to a PZU SA Supervisory Board resolution on 3 June 2008 for the purpose of increasing the efficiency of performing supervisory activities by the Supervisory Board in the area of monitoring the Company's financial reporting process and the financial audit activities in the Company, and the efficiency of internal control systems, internal audit systems and risk management systems in the Company. In addition, the range of Audit Committee's activities may include other matters ordered by the Company's Supervisory Board.

The Committee is comprised of three members, including at least one independent member with qualifications in accounting or financial audit. The detailed tasks and rules of the appointment and operation of the Audit Committee are defined by the PZU SA Supervisory

Board Bylaws, the Bylaws of the Audit Committee of the PZU SA Supervisory Board and a resolution of the Supervisory Board which, when electing the members of the Audit Committee, takes into consideration the competence and experience of the candidates within the scope of matters entrusted to that Committee.

From 16 June 2010 to 30 June 2011, the composition of the Audit Committee of the PZU SA Supervisory Board was as follows:

- Marzena Piszczek – Chairwoman,
- Grażyna Piotrowska-Oliwa – Member,
- Dariusz Filar – Member.

Grażyna Piotrowska – Oliwa was selected by the Supervisory Board as an independent member with qualifications in accounting or financial audit within the meaning of Art. 86 sec. 4 of the Act of 7 May 2009 on Statutory Auditors and their Self-Regulatory Body, Audit Firms Authorized to Audit Financial Statements and Public Oversight (Journal of Laws of 2009 No. 77, item 649).

On 30 June 2011, the Shareholder Meeting of PZU SA appointed the Supervisory Board for a new term of office. In connection with the change of the personnel composition of the Supervisory Board, during its first meeting the following composition of the Audit Committee was determined:

- Marzena Piszczek – Chairwoman,
- Dariusz Daniluk – Member,
- Dariusz Filar – Member.

Dariusz Filar was selected by the Supervisory Board as an independent member with qualifications in accounting or financial audit within the meaning of Art. 86 sec. 4 of the Act of 7 May 2009 on Statutory Auditors and their Self-Regulatory Body, Audit Firms Authorized to Audit Financial Statements and Public Oversight (Journal of Laws of 2009 No. 77, item 649).

In addition, the Supervisory Board Members determined that PZU SA Supervisory Board Secretary Krzysztof Dresler would participate in the Audit Committee meetings without the right to participate in voting.

The Audit Committee's decisions were made in the form of resolutions which were each time conveyed to the Company's Supervisory Board.

The report of the Audit Committee of the PZU SA Supervisory Board on the activity in 2011 constitutes attachment no. 3 to this report.

#### Nomination and Compensation Committee

Pursuant to the Articles of Association of PZU SA, since the introduction of the Company shares into trading on the regulated market within the meaning of the Act on Trading in Financial Instruments of 29 July 2005, the Supervisory Board could appoint an Nomination and Compensation Committee, and it was appointed on 12 May 2010.

The detailed tasks and rules for the appointment and operation of the Nomination and Compensation Committee have been defined by the Supervisory Board through a resolution.

The Nomination and Compensation Committee is an advisory and opinion-making body for the Supervisory Board with respect to shaping the management structure, including organizational solutions, salary and remuneration system and selection of staff with appropriate qualifications.

In the period from 16 June 2010 to 30 June 2011, the composition of PZU SA's Nomination and Compensation Committee was as follows:

- Zbigniew Ćwiąkalski (Committee Chairman),
- Marzena Piszczek (Committee Member),
- Piotr Maciej Kamiński (Committee Member),
- Dariusz Filar (Committee Member).

On 30 June 2011, the PZU SA Supervisory Board of the new term appointed the following people to the Nomination and Compensation Committee of the PZU SA Supervisory Board in its new term of office:

- Zbigniew Ćwiąkalski (Committee Chairman),
- Zbigniew Derdziuk (Committee Member),
- Krzysztof Dresler (Committee Member),
- Marzena Piszczek (Committee Member).

In the period 30 June – 31 December 2011, the composition of the Nomination and Compensation Committee did not change.

The decisions of the Nomination and Compensation Committee of the PZU SA Supervisory Board were made in the form of opinions and recommendations which were each time conveyed to the Company's Supervisory Board.

According to the provisions of the Articles of Association, the Committee is dissolved as of the date of appointing five Supervisory Board members by way of voting by groups, and as of that moment the Supervisory Board in full composition takes over its powers.

#### Strategic Committee

In the period from 29 July 2010 to 30 June 2011, the composition of the Strategic Committee of the PZU SA Supervisory Board was as follows:

- Waldemar Maj (Committee Chairman),
- Krzysztof Dresler (Committee Member),
- Grażyna Piotrowska – Oliwa (Committee Member),
- Marzena Piszczek (Committee Member),

On 30 June 2011, the PZU SA Supervisory Board of the new term appointed the following persons to the Strategic Committee of the PZU SA Supervisory Board:

- Waldemar Maj (Committee Chairman),
- Zbigniew Derdziuk (Committee Member),
- Krzysztof Dresler (Committee Member),
- Marzena Piszczek (Committee Member).

In the period 30 June – 31 December 2011, the composition of the Strategic Committee did not change.

The tasks of the Strategic Committee include opining any strategic documents submitted to the Supervisory Board by the PZU SA Management Board (including in particular the Company's development strategy) and presenting to the Supervisory Board the recommendations for the planned investments which have significant impact on the Company's assets.

In 2011, the decisions of the Strategic Committee of the PZU SA Supervisory Board were made in the form of opinions and recommendations which were each time conveyed to the Company's Supervisory Board.

#### **IV. Information about performance of resolutions adopted by the Shareholder Meeting of PZU SA**

The Supervisory Board asserts that in 2011 it was not obligated to take any actions resulting from resolutions adopted by the Shareholder Meeting of PZU SA.

#### **V. Performance of reporting and information duties**

In 2011, the Supervisory Board received current and periodic trading reports.

The Quarterly Information about a Company with a minority State Treasury shareholding was delivered to the State Treasury Ministry.

The PZU SA Supervisory Board asserts that in 2011 all reporting and information duties imposed on the Supervisory Board by law were carried out in a timely manner.

#### **VI. Brief evaluation of the Company's standing with assessment of the internal control system and the system of management of risk which is significant to the Company**

In 2011, the Company had a very good financial standing and it complied with all the security criteria imposed on it pursuant to the Insurance Activity Act and by the Polish Financial Supervision Authority (KNF).

In 2011, higher gross written premium on direct and indirect insurance was recorded, amounting to PLN 8,247.2 million vs. PLN 7,780.5 million in 2010.

In 2011, PZU SA recorded a net profit of PLN 2,582.3 million vs. PLN 3,516.7 million in 2010, down by 26.6% compared to the 2010 figure. Excluding the dividend received from PZU Life, PZU SA's net result for 2011 was PLN 595.0 million and it was 50% higher than the result recorded in 2010.

The technical result on PZU SA's non-life insurance as at the end of 2011 was PLN 332.3 million vs. -244.7 million in 2010.

The balance of Company's investments as at the end of 2011 was PLN 24,882.9 million and it was 4.4% higher compared to the end of 2010. Equity was 1.3% lower as compared to the previous year and it amounted to PLN 11,745.4 million.

At the end of 2011, ROE was 21.8%, down by 9.7 p.p. compared to the end of the previous year.



On 22 July 2011, Standard & Poor's Ratings Services upheld the credit rating and financial strength rating and the "A" level with a stable rating outlook.

The following factors had the biggest impact on the Company's results and activity in 2011:

- changes in the gross written premium structure resulting from restructuring the corporate client portfolio and rate hikes (as of 2010) for individual clients;
- improved profitability in motor and property insurance products – in 2011, the impact of catastrophic events was lower than in the previous years;
- consistent execution of PZU SA's strategy with respect to conducting restructuring processes aiming at reducing administrative expenses (conducting the group layoff process);
- lower results on investment activity as compared to the previous year as a result of poor conditions on the capital markets, including the Warsaw Stock Exchange.

On 12 May 2010, PZU SA's IPO on the Warsaw Stock Exchange took place. Company shares are listed on the main floor in the continuous trading system. In 2011, PZU shares were in the WIG, WIG 20 and WIG PL indices.

In 2011, PZU SA's stock price remained under the influence of not very optimistic factors shaping the situation on the WSE and global investors' sentiment toward the Eurozone and the Polish market. The decisions of investors interested in PZU SA shares were also influenced by the State Treasury's sale of a 10% stake in PZU and the payment of the dividend for 2010.

The closing price of PZU shares on the last stock exchange trading session in 2011 was PLN 309.00 which, compared to the price on the last day of December of 2010 of PLN 355.50, represented a 13.1% decrease. During the same time, WIG20 and WIG stock exchange indices decreased by 21.9% and 20.8%, respectively. Throughout the bulk of 2011, PZU shares sustained smaller losses than the overall market.

In 2011, PZU shares ended the trading session with index drops 124 times, 122 times with increases, and remained unchanged 5 times. The highest closing price (PLN 396.80) was recorded on 25 May, and the lowest (PLN 294.20) – on 4 October. The average market price of PZU shares in 2011 was PLN 349.40 and it was PLN 22.93 lower than in 2010. In 2011, the average daily trading in PZU shares was 265,862, and the highest trading (1,659,172) was recorded on 9 June 2011.

In 2011, PZU was included in the list of 21 domestic and foreign financial institutions whose analysts issued a total of 49 recommendations for PZU shares. "Buy", "Accumulate", "Overweight" recommendations prevailed – there were a total of 31 such recommendations; there were 17 neutral recommendations ("Hold" or "Neutral") and 1 "Underweight" recommendation.

The actions taken by the Company will make it possible to establish good grounds for its further development and ensure achievement of good financial results in the coming years, provided that macroeconomic factors do not deteriorate significantly.

In 2011, the internal control system adjusted to the scale of operations and the organizational structure was in effect in the Company which aimed at ensuring the efficiency and effectiveness of the organization's operation, reliability of financial reporting and consistency of PZU SA's activity with law and internal regulations.

The internal control system in PZU SA includes supervision, all the procedures, organizational structures and solutions implemented in the IT systems as well as other control mechanisms contributing to the achievement of the Company's objectives and ensuring safety and stability of its operations, carried out for the purpose of reasonably ensuring:

- efficiency and effectiveness of operating activity;
- reliability of information transferred inside and outside the Company, in particular with regard to financial statements;
- adequacy and efficiency of risk control;
- responsible and transparent management of the Company;
- compliance of the activities with law and internal regulations.

Supervision over the internal control system in the Company includes:

- supervision exercised by the Supervisory Board;
- activity of the Company's Management Board including, among other things, the following:
  - establishing an adequate and efficient internal control system,
  - periodic evaluation of internal control system's functioning,
- supervision exercised by the managers of functional divisions, specialized units and organizational cells in the Company;
- supervision exercised by the managers of organizational units (excluding the Company's Head Office) over their directly subordinated organizational cells operating outside of functional divisions.

An important role in this system is played by the Audit Committee of the PZU SA Supervisory Board. It is an advisory and opinion-making body of the Supervisory Board and it was appointed for the purpose of increasing the efficiency of performing supervisory activities by the Supervisory Board in the area of monitoring the Company's financial reporting process and the financial audit activities in the Company, and the efficiency of internal control systems, internal audit systems and risk management systems.

The manager of the organizational division/unit/cell is responsible for implementing an effective internal control system in the supervised area of the Company's operation, including in particular designing and ensuring efficient operation of control activities as integral components of executed processes.

The internal control system and the risk management system are evaluated by the internal audit unit which operates under conditions ensuring its objectivity and independence – it reports directly to the CEO and it notifies the Management Board and the Supervisory Board's Audit Committee about the actions it takes and their outcomes. In addition, in PZU SA internal audit is independent from operational functions.

The audit tasks in PZU SA were carried out on the basis of the annual Audit Plan adopted by resolution of the PZU SA Management Board, prepared on the basis of the assessment of risk occurring in the individual areas of the Company's operations.

The results of the audits, the issued recommendations and instructions and their performance (covered by an efficient monitoring process of the Internal Audit Department (BAW)) are presented on an ongoing basis to the Company's Management Board and periodically (quarterly) to the Supervisory Board's Audit Committee.

The Internal Audit Department prepared an annual activity report containing information on the performance of the audit plan and other tasks carried out by this department, as well as an evaluation of the internal control system and the risk management system.

In 2011, an independent assessment of the internal audit function in PZU SA was for the first time carried out by PricewaterhouseCoopers Sp. z o.o. (PWC). The assessment did not show any non-compliance with regard to any professional practice audit standard, and an evaluation was issued which placed the Internal Audit Department among the 15% of the best internal audit functions in the world.

One of PWC's recommendations was the need to update the internal audit's long-term strategic plan. Accordingly, in 2011 the Internal Audit Strategy for 2012-2014 was prepared which was accepted by the Audit Committee of the PZU SA Supervisory Board and the Company's Management Board. The most important assumptions of the Strategy include in particular preparing the internal audit function to meet the requirements of the Solvency II Directive, development of audit in the PZU Group, strengthening the control of field units and building partnership audit.

The "Memorandum on cooperation in the organization and functioning of the internal control system and the risk management system in the PZU Group" was concluded among the PZU Group companies, allowing the development of uniform standards for operation of an efficient internal control system in the PZU Group and exchange of information for the purposes of performing independent, comprehensive evaluation of risk management processes in the PZU Group. All the Companies which are parties to the aforementioned Memorandum confirmed the adequacy and efficiency of the implemented systems.

PZU SA has developed and is implementing a risk management system which is oriented to risk control but also maintaining an adequate level of the Company's capitalization. Through identification, analysis, measurement, control, management and reporting the risk associated with the conducted operating activity the Company is able to meet its obligations toward its clients and business partners and fulfill the requirements of law and external regulations.

Assumption of controlled risk is based on the following activities:

- identification of risk associated with offered products, investment activity and operating activity;
- assessment of risk on the basis of accepted methodologies, historical data as well as market parameters;
- drafting rules/guidelines for units responsible for assuming risk, including with respect to taking risk into account in the price of offered products;
- mitigating risk by taking security or reinsurance;
- measurement and control of incurred risk reported in the risk management process.

The main risk categories identified in the Company include the following:

- insurance risk (control mechanisms mitigating the risk in the area of, among other things, establishment of technical provisions, creating products, risk assessment, limiting competences and reinsurance rules, were put in place),
- financial risk (rules were introduced which include, among other things, risk identification, risk measurement – based on, among other things, value at risk (VaR) and measurements of exposure and sensitivity e.g. BPV, setting risk limits – from risk appetite to limits of exposure to individual types of financial risks to limits for individual investment portfolios, modeling risk exposure – among other things, making investment

decisions as part of asset and liability matching, strategic allocation of assets and tactical allocation of assets processes, and monitoring and reporting risk),

- operating risk (for the purpose of risk identification and assessment, information is gathered and analyzed on, among other things, security-related incidents and incidents related to operating risk, and a Crisis Team was established to manage crisis situations in the Company's operating activity).

Responsibility for implementing an adequate and efficient risk management system lies with the Management Board. The range of activity of the Audit Committee of the PZU SA Supervisory Board includes, among other things, monitoring the efficiency of the risk management system in the Company.

The key role in the risk management process in the Company is played by the Risk Department whose range of duties includes, among other things, the following:

- development of the risk management system,
- identification of investment, insurance and operating risks and their measurement, and development and implementation of an efficient system for reporting them,
- development and implementation of an internal model for investment risk,
- ensuring PZU Group's compliance with the requirements of the Solvency II Directive and other external acts related to the risk management system.

The risk management system is based on the "three lines of defense" principle which include the following:

- First line of defense: risk management at the level of business units (organizational units) on the basis of the prevailing procedures, guidelines and set limits. Risk management at that level is additionally supported through the prevailing internal control rules.
- Second line of defense: risk management through specialized cells and committees (established for the purpose of managing the individual risk categories) as part of the existing risk management structure on the basis of the prevailing rules, methodologies and procedures. It identifies non-compliance with law and internal regulations as well as the accepted norms of proceeding.

In 2011, the following committees functioned within PZU SA's organizational structure:

- Asset and Liability Management Committee (financial risk),
- Credit Risk Committee (financial risk),
- Investment Committee (financial risk),
- Financial Insurance and Guarantee Risk Committee (financial insurance risk),
- Business and Technological Committee (operating risk).

Next, the allocation of limits to business lines and organizational cells located at lower levels of the organizational structure is performed.

An important role is played by the Security Department whose duties include issues related to ensuring security of legally protected information, combating crime, and ensuring physical security and occupational safety.

- Third line of defense: internal audit unit which conducts independent audits of elements of the risk management system and control activities embedded in the Company's

operations. In addition, as part of this function the monitoring of the performance of the auditor's instructions and recommendations is conducted.

Risk management in the PZU Group is based on the following main rules:

- undertaking controlled risk: financial strength and permanent value growth are an integral part of the PZU Group's business strategy. In order to achieve those objectives, the PZU Group conducts its activity in accordance with a clearly defined risk policy and within the framework of the set limitations for that risk.
- clearly defined responsibility: the PZU Group follows the principles of task, competence and responsibility allocation. The seconded employees are responsible for the risk which they undertake, and their bonus incentives coincide with the business objectives of the PZU Group.
- adaptation to changes occurring in the business environment: an integral part of the risk control process in the PZU Group is the ability to respond to changes occurring in the business environment which result from external as well as internal conditions of the PZU Group.

In connection with the obligation imposed on insurance companies by the Polish Financial Supervision Authority ("KNF"), PZU SA conducted, according to KNF's guidelines, stress tests of the financial data reported as at 31 December 2010 and it submitted the results by the deadline of the end of July 2011. In addition, the PZU Group participated in European stress tests for the insurance sector conducted by the European Insurance and Occupational Pensions Authority ("EIOPA") whose results were handed over to KNF. The stress tests have shown that the PZU Group has sufficient capital to secure safe continuation of its operations in the event of the occurrence of unfavorable events in the business environment with significant financial consequences.

In the opinion of the PZU SA Supervisory Board, in 2011 the risk management and internal control systems in PZU SA functioned at a level ensuring the safety of the Company's operations. The Management Board correctly identified the risks associated with PZU SA's activity, it monitored them on an ongoing basis and effectively managed them.

The PZU SA Supervisory Board positively evaluates its cooperation with the Company's Management Board in 2011 and it recommends to the Ordinary Shareholder Meeting of PZU SA discharging all the PZU SA Management Board members on the performance of their duties in the PZU SA Management Board in 2011 i.e.

- 1) Andrzej Klesyk, CEO from 1 January 2011 to 31 December 2011,
- 2) Przemysław Dąbrowski, Management Board Member from 1 January 2011 to 31 December 2011,
- 3) Witold Jaworski, Management Board Member from 1 January 2011 to 31 December 2011,
- 4) Tomasz Tarkowski, Management Board Member from 21 April 2011 to 31 December 2011,
- 5) Marcin Halbersztadt, Management Board Member from 15 May 2011 to 6 October 2011,
- 6) Bogusław Skuza, Management Board Member from 1 July 2011 to 31 December 2011,
- 7) Ryszard Trepczyński, Management Board Member from 1 July 2011 to 31 December 2011.

## **VII. Self-assessment of the PZU SA Supervisory Board**

The PZU SA Supervisory Board fulfilled its duties diligently and efficiently, it exercised ongoing supervision over the Company's operations and development in all areas of its activity, and it undertook all the tasks reported by the PZU SA Management Board necessary to ensure efficient conduct of the activities described in the articles of association and performance of the Company's strategic objectives. The scope, manner of operation and the composition of the Supervisory Board in 2011 were consistent with the generally prevailing regulations, the Company's internal regulations and requirements set for public companies, in particular those defined in "The Code of Best Practice for WSE Listed Companies".

All members of the PZU SA Supervisory Board represented a high and unquestionable level of preparation and professional experience in the area of conducting and supervising commercial law companies, and they performed their duties as described in the code and the articles of association in a correct manner guaranteeing correct supervision of the Company. Each Supervisory Board member acted with due diligence and was committed to the performance of his/her duties in the Supervisory Board, and while performing his/her duties was guided by the Company's interest and the independence of opinions and judgments.

The diversified composition of the Supervisory Board and interdisciplinary knowledge and skills of its members allowed it to examine thoroughly and issue opinions on the presented subjects, and ensured broad representation of opinions on the Management Board's work and functioning of PZU SA as a public company.

Despite changes to the PZU SA Supervisory Board, the Supervisory Board performed its duties without interruption and actively supported the Management Board in the performance of the most important tasks. The decisions made by the Supervisory Board featured profound care for the welfare of all shareholders.

Taking the above facts into account, the Supervisory Board is prepared to perform its duties described in the acts and the articles of association, and it performs them in a correct manner guaranteeing adequate supervision of the Company. The Supervisory Board believes that the activity of the PZU SA Supervisory Board in 2011 may be evaluated as having been conducted efficiently and in accordance with the best market practices.

Chairwoman of the PZU SA Supervisory  
Board

Marzena Piszczek